

Message Text

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20/51

ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 EB-06 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-03 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 SAJ-01 L-02 H-02 PA-02 PRS-01 USIA-15 AGR-10

SWF-01 /121 W

----- 036371

R 251658Z OCT 74 ZFD

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5143

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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C O R R E C T E D C O P Y - T E X T

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING OCTOBER 25

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BEGIN SUMMARY: IF THE ECONOMIC DATA FOR THE WEEK ENDING OCTOBER 25 IS ANY INDICATION, THE U.K. ECONOMY MAY NOT BE AS WEAK AS MOST OBSERVERS BELIEVE. UNEMPLOYMENT HAS DECREASED, RETAIL PRICES ARE STILL INCREASING AT A RATE BELOW THAT OF THE LAST 12 MONTHS, REAL CONSUMER EXPENDITURE CONTINUES TO RISE, WEEKLY WAGE RATES ROSE ONLY SLIGHTLY IN SEPTEMBER AND RECENT RAPID RISES IN THE MONEY SUPPLY SEEM TO HAVE MODERATED IN THE MOST RECENT FIGURES. HOWEVER, IT SHOULD BE POINTED OUT THAT ALL THESE FIGURES ARE FOR ONE MONTH ONLY AND MANY ARE DISTORTED BY RECENT POLICY ACTIONS. IT IS STILL TOO EARLY TO PROCLAIM THE U.K. ECONOMY AS LESS WEAK THAN EXPECTED.

ON A TRADE-WEIGHTED BASIS AS MEASURED BY THE BANK OF ENGLAND, THE AVERAGE STERLING DEPRECIATION WIDENED TO 18.9 PERCENT (SINCE SMITHSONIAN), THE WEAKEST AVERAGE POSITION IN 9 MONTHS. AGAINST THE DOLLAR, THERE WAS LITTLE MOVEMENT IN THE POUND RATE WHICH CLOSED AT \$2.3315 ON THURSDAY (OCT 24) WITH ONLY MINOR MOVEMENTS OF PLUS AND MINUS \$0.0015 AROUND THIS RATE DURING THE WEEK. THE PRICE OF GOLD INCREASED SHARPLY ON THURSDAY (OCT 24) CLOSING AT \$164.25, UP \$9.25 FROM LAST THURSDAY'S (OCT 17) CLOSE.

END SUMMARY.

I. DOMESTIC ECONOMY

1. UNEMPLOYMENT SHOWED A DECREASE OF ABOUT 4000 IN THE PERIOD MID-SEPTEMBER TO MID-OCTOBER ON A SEASONALLY ADJUSTED BASIS. THIS MAY INDICATE MORE UNDERLYING STRENGTH IN THE ECONOMY THAN PREVIOUSLY THOUGHT, OR IT MAY BE AN ABERRATION. IT CERTAINLY SHOWS THAT MOST FIRMS ARE STILL ABLE TO FINANCE ONGOING WORK, I.E., THAT THE CORPORATE LIQUIDITY SQUEEZE IS NOT YET AT THE CRISIS STAGE. THE UNEMPLOYMENT FIGURES WILL CERTAINLY INCREASE THE AREA OF UNCERTAINTY FOR CHANCELLOR HEALEY AS HE DELIBERATES OVER HOW MUCH, IF ANY, REFLATION TO ATTEMPT IN THE NOVEMBER 12 BUDGET. HE WILL, AT THE SAME TIME, TAKE NOTE THAT UNFILLED VACANCIES DECREASED BY 6000 (S.A.), OVER THE SAME PERIOD.

2. RETAIL PRICES MOVED UP BY 1.1 PERCENT IN SEPTEMBER AND

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HAVE RISEN 17.1 PERCENT IN THE LAST YEAR. THE SEPTEMBER RETAIL PRICE INDEX (RPI) IS 212.9, UP FROM 210.6 OF AUGUST (JANUARY 1962 EQUALS 100). THE RPI RISE TRIGGERED ANOTHER THRESHOLD PAYMENT OF 40 PENCE FOR ABOUT 10 MILLION WORKERS, THE EIGHTH TIME THE THRESHHOLD HAS BEEN TRIGGERED SINCE MARCH. PRICES INCREASED GENERALLY THROUGH ALL CATEGORIES OF THE INDEX; FOOD PRICES ROSE BY 1.3 PERCENT.

3. CONSUMER EXPENDITURE (1970 PRICES--SEASONALLY ADJUSTED ROSE BY 1.5 PERCENT IN THE THIRD QUARTER, ACCORDING TO PRELIMINARY FIGURES. CONSUMER EXPENDITURE APPEARS TO HAVE BEEN ON A LEVEL GROWTH PATH FOR THE PAST YEAR (EXCLUDING THE FIRST QUARTER OF 1974), AND IS NOW AT ABOUT THE AVERAGE LEVEL OF THE SECOND HALF OF 1973.

4. BASIC WEEKLY WAGE RATES ROSE BY 1/2 PERCENT IN SEPTEMBER, BUT OVER THE PAST YEAR THEY HAVE RISEN BY 20.7 PERCENT. THIS IS A RECORD HIGH ANNUAL INCREASE FOR THE WEEKLY WAGE RATE INDEX, AND EACH MONTH IT SETS A RECORD NEW HIGH. THE INCREASE IN AUGUST WAS OVER 4 PERCENT. SEPTEMBER'S RATE OF GROWTH WAS MODERATED BY THE SMALL INCREASE IN THE RPI IN AUGUST WHICH DID NOT TRIGGER ANY THRESHHOLD INCREASES.

5. THE MONEY SUPPLY, ON A SEASONALLY ADJUSTED BASIS, ROSE

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R 251658Z OCT 74

FM AMEMBASSY LONDON

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BY 0.2 PERCENT ON BOTH A NARROW AND A BROAD DEFINITION (M1 AND M3) IN THE PERIOD AUGUST 22 TO SEPTEMBER 18. THE RATE OF INCREASE FOR BOTH IS SOMEWHAT REDUCED FROM THE PREVIOUS 2 MONTHS. OVER THE LAST 3 MONTHS, M1 HAS RISEN BY 2.75 PERCENT AND M3 BY 4.5 PERCENT. THE DECREASE IN THE GROWTH OF M3 IS PARTLY DUE TO A LOWER RATE OF BANK LENDING TO THE PRIVATE SECTOR, ACCORDING TO THE BANK OF ENGLAND. A "SIZEABLE" CENTRAL GOVERNMENT BORROWING REQUIREMENT FOR THE PERIOD WHICH WAS OFFSET, TO SOME EXTENT, UNCLASSIFIED

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BY "MODEST" SALES OF GILTS TO THE NONBANK PUBLIC ALSO CONTRIBUTED TO THE INCREASE IN M3, BUT THE BALANCE OF PAYMENTS DEFICIT HELPED TO REDUCE MONEY'S GROWTH.

II. INTERNATIONAL

6. ON A TRADE-WEIGHTED BASIS, THE AVERAGE DEPRECIATION OF THE POUND WIDENED TO 18.9 PERCENT (OCT 24), A LEVEL NOT RECORDED SINCE EARLY FEBRUARY. WHILE REMAINING STABLE AGAINST THE DOLLAR, THE POUND CONTINUED TO DEPRECIATE AGAINST THE MAJOR EUROPEAN CURRENCIES. STERLING CLOSED THURSDAY (OCT 24) AT \$2.3315 WITH FLUCTUATIONS OF ONLY \$0.0015 ABOVE AND BELOW THIS LEVEL DURING THE WEEK. GOLD ROSE TO \$164.25 ON THURSDAY (OCT 24), UP \$9.25 FROM LAST THURSDAY'S CLOSE. REPORTS INDICATE QUALITATIVE FACTORS IN ANTICIPATION OF THE REMOVAL OF U.S. PROHIBITION ON PRIVATE OWNERSHIP OF GOLD ARE ALREADY NOTICEABLE IN THE MARKET.

7. THE FORWARD PREMIUM INCREASED SLIGHTLY DURING THE WEEK.

	10/17	10/24	CHANGE
1 MONTH	0.45	0.51	UP 0.06
3 MONTHS	1.70	1.96	UP 0.26
6 MONTHS	3.80	4.05	UP 0.25

(ALL FIGURES IN CENTS)

(8) EURODOLLAR RATES CONTINUED THEIR DOWNWARD TREND, RESPONDING IN PART TO THE LOWERING OF U.S. INTEREST RATES.

	10/17	10/24	CHANGE
1 MONTH	10-3/16	10-1/8	DOWN 1/8

3 MONTHS 10-15/16 10-1/2 DOWN 7/16
6 MONTHS 11 10-5/8 DOWN 3/8

9. LOCAL AUTHORITY DEPOSIT RATES REMAIN FAIRLY STEADY
THROUGHOUT THE WEEK.

	10/17	10/24	CHANGE
1 MONTH	10-15/16	11-3/16	UP 1/4
3 MONTHS	11-3/4	11-13/16	UP 1/16
6 MONTHS	12-11/16	12-5/16	DOWN 3/8

10. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT
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11-1/2 PERCENT ON FRIDAY, OCTOBER 25.

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Message Attributes

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Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: n/a
Enclosure: n/a
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TAGS: ECON, UK
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